KiwiSaver and you

With Kiwisaver assets now totalling more than $83 billion, the savings scheme provides advisers with a massive opportunity to diversify their revenue streams.

BY JENNI MCMANUS

Scott Alman, managing director and founder of Consilium, tells a horror story from the Covid-19 pandemic.

As the markets tanked in response to lockdowns and global chaos, an acquaintance of Alman's watched in dismay as his KiwiSaver balance began to unravel.

Panicking, the man called his provider – an unnamed bank – seeking urgent advice.

When nobody picked up, he took matters into his own hands and moved his money from a growth fund to a conservative fund.

Worse, he didn't switch it back when the market rebounded.

Had this investor been able to access financial advice, Alman says, he might have saved himself a heap of money.

The story isn't unique. Thousands of investors made similar moves in early 2020 and in doing so wiped hundreds of thousands of dollars from their balances – losses which could have been avoided through access to clear and timely financial advice.

Trouble is, for the average KiwiSaver member, that advice can be patchy and difficult to find unless you've joined an adviser-led platform such as Consilium or InvestNow. And most certainly it will be expensive.

But with rising KiwiSaver balances and the Financial Markets Authority (FMA) determined to stamp out referrals and trail commissions – the traditional way advisers have been remunerated – some insurance and mortgage advisers are upskilling and turning their attention to KiwiSaver.

Key to their success will be understanding where advisers can add value.

Exponential growth

Greg McMaster, head of client partnerships at Salt Funds Management, says with KiwiSaver showing double-digital growth, advisers have a real opportunity to think about the structure of their businesses and figure out how to grab a slice of the market.

"The KiwiSaver market is evolving and becoming a genuine possibility for advisers," he says. "It has now given all advisers a way to think about further diversifying their business's revenue stream."

According to Morningstar's September KiwiSaver survey, assets under management total $83.5 billion - and McMaster says some reports are predicting a 15% growth rate.

"Even if it grows only 10% over the next 10 years, you're looking at a book of assets well in excess of $200 billion. It's a massive growth area which creates opportunities."

McMaster believes the Consilium/InvestNow adviser-driven platforms are the way of the future.

Many of the advisers he talks to would be interested in the platform model for balances of $150,000-plus.

"The market will get there by evolution," he says. "But I do think advice around [being in] the right fund is also important - understanding your time horizon and what you're trying to achieve when you retire."

It is key, he says, that advisers also understand how to have conversations with their clients when they are panicky.

Choice and transparency

Scott Alman is a big believer in advice.

In fact, only advisers are permitted to access Consilium's KiwiWRAP KiwiSaver platform, where, on behalf of their well-heeled clients, they can design and customise KiwiSaver portfolios from more than 400 investment options.

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Greg McMaster

It’s the sort of choice that’s available only with a wrap account, Alman says, and light years away from the typical KiwiSaver model, where fund managers make calls on behalf of their members - whose choices are restricted to deciding on type of fund and contribution level.

The level of transparency is also different. KiwiWRAP investors and advisers can see clearly the cost of the scheme, the investments and the advice.

But in a mass-market KiwiSaver scheme where advisers are typically paid referral fees and trail commissions – supposedly for giving ongoing advice - fees and other costs are more opaque.

Worse, at least in the opinion of the FMA, they are bundled into a general management fee which is charged to all members of a scheme, regardless of whether they have joined direct or through an adviser, and regardless of whether they want, or are actually receiving, ongoing financial advice.

Few options

The biggest controversy is around how advisers will be paid.

Going forward, the FMA has warned KiwiSaver providers that as balances grow and financial advice becomes more important, they must find an alternative to referrals and trails.

The only real option is a fee-for-service model, already used by Consilium, InvestNow, Koura and a few other providers.

But will clients be prepared to pay?

At the top end of town, where KiwiSaver balances run to six figures, clients are more likely to recognise the need for personalised advice.

With a big chunk of money at stake, they usually see the sense in paying an adviser.

But at the other end of the spectrum, where the average balance is somewhere between $25,000 and $30,000, individual advice might not be useful or make economic sense.

One thing is for sure: because of perceived (and sometimes actual) conflict of interest issues, fund managers will not be buying a book of advisers to sell the scheme’s products.

“It’s vertical integration,” said one, who did not want to be named. “It’s exactly [the sort of behaviour] that caused the Australian Royal Commission.”

So, how do KiwiSaver members with average balances access sufficient advice to make the most of their accounts?

Many schemes have online advice tools to help investors choose the right fund, but few, if any, are offering in-depth personalised advice.

Some, such as Generate, say an adviser will call all new members to ensure they have enough information to make this choice.

Similarly, Rupert Carlyon’s Koura KiwiSaver scheme uses a combination of online tools, personal phone calls and fee-for-service advice as part of its KiwiSaver offering.

But investors generally won’t get a personalised financial plan unless they make a point of seeking out an adviser - and are prepared to stump up for the fee.

Adviser-driven

Alman says the tipping point, where advisers can add value, is a KiwiSaver balance of around $50,000.

Below that, he says investors are better off in a managed-fund style of KiwiSaver.

Not everyone agrees. Anthony Edmonds, managing director of InvestNow, says it can definitely be worthwhile for someone with $20,000 in their KiwiSaver account to get personalised advice.

"People need advice for all sorts of reasons, regardless of where they are on their investment journey," he says.

Edmonds runs a platform similar to Consilium, but it's not adviser-only.

While investors are strongly recommended to get financial advice – and 35% to 40% of InvestNow KiwiSaver clients are working with an investment adviser - some members prefer to do it themselves.

Many InvestNow clients have decent balances, Edmonds says. Six-figure sums are not uncommon, and several who signed up for KiwiSaver at its inception in 2007 now have balances that equate to a year's salary.

"Our experience of working with advisers is that their clients have quite meaningful balances, in excess of what you see quoted as industry averages."

InvestNow has a deliberate strategy of partnering and working with advisers.

"The business model we're working with is all about giving and receiving advice," he says.

"We've had good success in growing key relationships with good adviser groups who like the platform."

He's not interested in advisers who are seeking trail commissions "and the advisers who like trail commissions don't like our KiwiSaver scheme".

It's all about fee-for-service, and Edmonds doesn't think he's particularly picky when it comes to advisers.

"The business model does it for us," he says. "It shapes who we're going to work with."

"We can tell right at the outset when talking to an adviser whether they're right for us, because our fee model will be something that they welcome - or they say 'no, I definitely need to get a trail'.

"It's almost as if they don't want the clients thinking about the fact that [they're] getting paid.

"The people we work with actually want their advice fees disclosed and seen and transparent, so the clients know they're paying for the advice as opposed to a trail.

"These are two very different approaches to advice."

Client choice

Like Alman, Edmonds says the platform is all about choice.

"Our product is well-suited to being used by advisers because they can use combinations of different managers.

"For example, we've found a lot of advisers might use a combination of different growth funds to get diversification. We can see that this smooths out returns – it takes out some of the volatility."

To understand the variance in returns between managers, Edmonds says to look at the past year: it shows a "huge disparity" from diversified growth funds on the platform, depending on investment style and process.

"That's the sort of thing where advisers can add real value."

Scott Alman says his adviser numbers are growing, as is his 200-strong member base. The average KiwiWRAP balance is $130,000, and the platform manages assets of $30 million.

"The young advisers get this straight away," he says. "They get that their target market is typically high-income, not-rich-yet Henrys.

"But changing adviser habits and behaviours takes a long time, because they have a fixed way of doing things, they are very busy, and there is a huge demand for their services.

"But we're not for everybody."

Like Edmonds, Alman dislikes trails, especially if they are embedded in management fees.

"Nowhere in the world is that a model that anyone thinks is healthy."

PROPOSED CHANGES TO KIWISAVER

Proposals to tweak KiwiSaver are likely in the run-up to next year's general election.

But Henry Tongue, Generate KiwiSaver chief executive, says the focus on fees has drowned out the KiwiSaver conversation the country needs to be having around contribution rates and retirement goals.

"It would be great to see the Government launching a public-interest advertising campaign to 'get advice on your KiwiSaver'.

"There is a genuine need, and there are advisers ready and able to provide it. The benefits would be enormous."

Retirement Commissioner Jane Wrightson is another who wants contribution rates increased, to a minimum of 5%. She is also calling for KiwiSaver to be made compulsory.

Wrightson doesn't think the current government will be brave enough to make these changes, but the opposition might be persuaded.

She is urging the financial services sector to collaborate with the Retirement Commission and lobby the Government.

Rupert Carlyon, the founder of Koura Wealth, says the current 3+3 contribution rates "are sleep-walking to disaster".

Noting that the OECD average for superannuation fund contributions is 15%, Carlyon thinks we should be aiming at 12%. And a tax break would help.

Kiwisaver for couples

On another front, Carlyon is petitioning the Government to change the KiwiSaver Act to create a voluntary scheme enabling couples to share their contributions, so the partner who takes a career break to raise children, or works at a lower-paying job, is not disadvantaged in retirement.

He has close to 1000 signatures and is having conversations with the industry and "down in Wellington".

"What we've shown is that there is a clear desire for it to happen," he says. "For a lot of people, it's not seen as a difficult or expensive change and doesn't cost the taxpayer any money.

"It's just figuring out whether we can get the system in place to make it happen and get it prioritised in Wellington."

Carlyon also wants to see changes to the system of appointing default KiwiSaver providers.

Rather than default providers being reviewed every seven years, any provider with assets of more than $100 million should be allowed to apply at any point.

The current system "gives a hand-up to the big guys," he says, when most innovation and diversification is coming from the smaller KiwiSaver players.

Consilium chief executive Scott Alman would like to see an uncoupling of employer-employee contributions so if an employee stopped contributing because of financial hardship, the employer's contribution would continue.

At present, if an employee stops contributing, the employer has no legal obligation to contribute.

"To me, that's egregious," Alman says. "It seems to penalise those most in need in our community."

In his view, the employer contribution should be increased to 9%.

Others would like to see changes to limit the portability of KiwiSaver schemes.

Because members can easily change providers, most KiwiSaver schemes will not invest in much-needed private-sector infrastructure in New Zealand as they fear a run-on funds.